

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Market Dominant Product Prices
Inbound Market Dominant Multi-Service Agreements
With Foreign Postal Operators 1

Docket No. R2017-6

Korea Post – United States Postal Service
Multi-Product Bilateral Agreement (MC2010-35)
Negotiated Service Agreement

PUBLIC REPRESENTATIVE COMMENTS

(February 27, 2017)

I. INTRODUCTION

The Public Representative hereby provides comments pursuant to the Commission Notice Initiating Docket(s).¹ In that Notice, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service's Notice of a Type 2 rate adjustment in conjunction with a new market dominant international negotiated service agreement.²

The Postal Service's Notice concerns the inbound market-dominant portion of a bilateral agreement with Korea Post (Korea Post 2017 Agreement). The Postal Service seeks to include the Korea Post 2017 Agreement within the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 (Foreign Postal Operators 1) product. Notice at 1. Korea Post 2017 Agreement establishes negotiated rates for inbound small packet with delivery scanning items. Notice at 1, 3.

¹ Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, February 14, 2017.

² Notice of United States Postal Service of Type 2 Rate Adjustment, and Notice of Filing Functionally Equivalent Agreement, and Application for Non-Public Treatment, February 13, 2017 (Notice).

II. BACKGROUND

In Order No. 2843, the Commission determined that a bilateral agreement with Korea Post (Korea Post 2016 Agreement) should be included within the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product.³ In Order No. 3617, the Commission approved the extension of Korea Post 2016 Agreement.⁴ (Modified Korea Post 2016 Agreement). The Korea Post 2017 Agreement subject of the current docket is the successor to an existing Modified Korea Post 2016 Agreement, which is set to expire on March 31, 2017. Order No. 3617 at 2. The proposed effective date of the Korea Post 2017 Agreement is April 1, 2017.⁵ Notice at 2. The Korea Post 2017 Agreement is to remain in effect for until June 30, 2018, unless terminated sooner. *Id.*, Attachment 2 at 6.

The Postal Service states that the negotiated inbound market dominant rates in the Korea Post 2017 Agreement will result in an “improvement over default rates established under the Universal Postal Union (UPU) Acts” for “inbound small packet with delivery scanning items”. Notice at 1. The Postal Service also identifies four operational changes in the Korea Post 2017 Agreement and states that “these improvements should enhance the performance of mail preparation, processing, transportation and other functions related to the delivery services provided for inbound small packets with delivery scanning” under the agreement. *Id.* at 5-6.

Pursuant to Order No. 2148, the Postal Service identifies the agreement with China Post Group filed in Docket No. R2010-6 (China Post 2010 Agreement) as a

³ Docket No. R2016-1, Order Approving Inbound Market Dominant Multi-Service Agreement with Foreign Postal Operators 1 Negotiated Service Agreement (with Korea Post), November 25, 2015 (Order No. 2843). See *also*, Notice of United States Postal Service of Type 2 Rate Adjustment and Notice of Filing Functionally Equivalent Agreement, November 13, 2015.

⁴ Docket No. R2016-1, Order Approving Modification to Existing Agreement, November 16, 2016 (Order No. 3617). See *also*, Notice of the United States Postal Service of Filing Modification to an Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 Negotiated Service Agreement, November 15, 2016.

⁵ See *also*, Notice of United States Postal Service of Filing Executed Agreement, February 15, 2017, Attachment 1 at 6.

baseline agreement for functional equivalence comparisons.⁶ Notice. at 1-2, 9. The Postal Service notes that the Commission has previously determined that the Korea Post 2016 Agreement was “functionally equivalent to the China Post 2010 Agreement.” *Id.* at 2. See *also*, Order No. 3843 at 7. The Postal Service states that the Korea Post 2017 Agreement is also functionally equivalent to the China Post 2010 Agreement. Notice, at 12. Therefore, the Postal Service requests the Korea Post 2017 Agreement be included within the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product. *Id.* at 2, 10, 12.

III. COMMENTS

The Public Representative has reviewed the Postal Service’s Notice, the Korea Post 2017 Agreement and supporting financial model filed under seal with the Postal Service’s Notice. The Public Representative has also reviewed the China Post 2010 Agreement and the financial model filed under seal in Docket No. R2010-6.

Financial Equivalence. The Public Representative’s review of the provided documentation reveals that the Korea Post 2017 Agreement and the China Post 2010 Agreement share similar cost and market characteristics. In terms of market characteristics, both agreements establish negotiated rates for inbound small packets with delivery scanning tendered to the Postal Service from the territory of a foreign postal operator. In terms of cost characteristics, both financial models develop unit costs for mail processing, delivery, domestic transportation, and other domestic costs associated with inbound small packet items with delivery scanning. The financial models used to project costs and revenues for the duration of the agreements are also similar.

Although the Postal Service identifies a number of differences between the Korea Post 2017 Agreement and the baseline China Post 2010 Agreement, it maintains that

⁶ The Commission designated the China Post 2010 Agreement and TNT Agreement (filed in Docket No. R2010-5) as two alternative baseline agreements. See Docket No. R2013-9, Order Granting, in Part, Motion for Partial Reconsideration of Order No. 1864 and Modifying, in Part, Order No. 1864, August 11, 2014 (Order No. 2148). See *also*, Docket Nos. R2010-5 and R2010-6, Order adding Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 to the Market Dominant Product List and Approving Included Agreements, September 30, 2010 (Order No. 549).

“none of these differences affect the cost or market characteristics” of the agreements. *Id.* at 10-12. The Public Representative agrees and concludes that the Korea Post 2017 Agreement is functionally equivalent to the baseline China Post 2010 Agreement.

Requirements of 39 U.S.C. § 3622(c)(10). To determine the net financial impact of the Korea Post 2017 Agreement, the Postal Service compares the cost coverage at the negotiated prices and at UPU terminal dues rates. The financial results show an improvement in cost coverage compared to the costs coverage at the UPU terminal dues. The Public Representative concludes that the negotiated prices in the Korea Post 2017 Agreement should “improve the net financial position of the Postal Service.”

Pursuant to 39 U.S.C. § 3622(c)(10), the criteria for the Commission review are also whether the agreement will be available on public and reasonable terms to similarly situated mailers, and will not cause unreasonable harm to the marketplace. With respect to these requirements, the Postal Service makes reasonable arguments that such criteria are not implicated by the Korea Post 2016 Agreement. *Id.* at 3-9.

Other Issues. The Postal Service identifies four operational changes that, as it claims, “should enhance” the operational performance of the Postal Service. *Id.* at 5-6. However, the Postal Service’s filings do not include any discussion, documentation or analysis to support its claim. As a result, the Public Representative cannot evaluate the expected impact, financial or otherwise, of such changes on the Postal Service’s operational performance during the term of the Agreement.

The Public Representative respectfully submits the foregoing comments for the Commission’s consideration.

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